

CORRECTED FISCAL NOTE

SB 2543 – HB 2503

February 4, 2008

SUMMARY OF BILL: Exempts from state and local sales tax the sale of materials bundled with exempt textbooks or workbooks.

ESTIMATED FISCAL IMPACT:

On January 18, 2008, we estimated the fiscal impact of this bill to be a decrease in state revenue of \$368,000 per year and a decrease of local government revenue of \$118,000 per year. Based on additional information, the fiscal impact of this bill is estimated as follows:

(CORRECTED)

Decrease State Revenue - \$438,900

Decrease Local Gov't. Revenue - \$141,100

Assumptions:

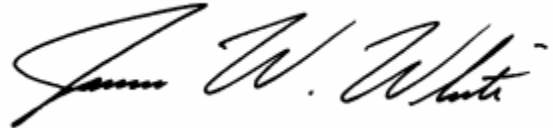
- The current exemption provided by current law is for college textbooks and workbooks, and textbooks and workbooks required for K-12 home-schooled students.
- 100% of textbooks and workbooks, and any bundled packages of such, which are purchased by public and private schools, are considered tax-exempt.
- According to the Department of Revenue (DOR) and based on Economic Census data, Tennessee college book store retail sales were approximately \$89,094,000 in 2002.
- 5% annual growth in college bookstore retail sales.
- Tennessee college book store retail sales adjusted for growth are estimated to be approximately \$119,395,000 for FY08-09.
- 80% of college bookstore retail sales are derived from the sale of college textbooks and workbooks; 20% are derived from the sale of supplies and other miscellaneous merchandise.
- Tennessee college bookstore sales derived from the sale of college textbooks and workbooks are estimated to be \$95,516,000 ($\$119,395,000 \times 80\% = \$95,516,000$) in FY08-09.

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- According to DOR, approximately 50% of college textbooks are bundled with supplementary materials.
- Bundled college textbook sales are estimated to be \$47,758,000 ($\$95,516,000 \times 50\% = \$47,758,000$) in FY08-09.
- According to DOR, approximately 55% of bundled college textbooks were not available for purchase without the bundled supplementary materials.
- Tennessee sales for bundled college textbooks when not available for purchase without the bundled supplementary materials is estimated to be \$26,267,000 ($\$47,758,000 \times 55\% = \$26,266,900$) in FY08-09.
- 80% of the bundled sales are for the exempt college textbooks or workbooks; 20% of the bundled sales are for the otherwise taxable supplementary materials.
- Taxable sales for the supplementary materials are estimated to be \$5,253,000 ($\$26,267,000 \times 20\% = \$5,253,400$) in FY08-09.
- According to the National Center for Education Statistics, there were approximately 1,100,000 K-12 home-schooled students in the U.S. in 2003.
- The number of K-12 home-schooled students in the U.S. adjusted for population growth is estimated to be 1,156,100 in 2008.
- The population of Tennessee represents 2.0% of total U.S. population.
- The number of K-12 home-schooled students in Tennessee is estimated to be 23,122 ($1,156,100 \times 2.0\% = 23,122$) in FY08-09.
- The ratios that apply to bundled college textbook sales and their supplementary materials apply for textbooks and materials required for K-12 home-schooled students in Tennessee.
- Parents of K-12 home-schooled students purchase approximately \$800 in textbooks and workbooks each academic year for their children.
- Total sales are estimated to be \$18,497,600 ($23,122 \text{ students} \times \$800 = \$18,497,600$) per year.
- Tennessee sales for the otherwise taxable supplementary materials which are bundled with textbooks or workbooks and used for home-schooling students is estimated to be \$1,017,400 ($\$18,497,600 \times 50\% \times 55\% \times 20\% = \$1,017,368$) in FY08-09.
- Current state sales tax rate is 7.0%.
- The decrease of state revenue is estimated to be \$438,900 [$(\$5,253,000 \text{ for supplementary materials bundled with college textbooks} + \$1,017,400 \text{ for supplementary materials bundled with K-12 home-school textbooks}) \times 7.0\% = \$438,928$] in FY08-09.
- The local option tax rate is estimated to average 2.25%.
- The decrease to local government revenue is estimated to be \$141,100 [$(\$5,253,000 \text{ for supplementary materials bundled with college textbooks} + \$1,017,400 \text{ for supplementary materials bundled with K-12 home-school textbooks}) \times 2.25\% = \$141,084$] in FY08-09.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is written in a cursive style with a large initial "J" and a distinct "W".

James W. White, Executive Director

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